

**Fund Balances**

**Policy 128**

I. Purpose

The purpose of this policy is to establish guidelines related to maintaining an adequate reserve in Lakes International Language Academy's general fund.

II. General Statement of Policy

According to the Loan Agreement between the City of Pine City, Minnesota, and Lakes International Language Academy and the LILA Building Company relating to the Lease Revenue bonds Series 2006A and Taxable Lease Revenue Bonds Series 2006B (Lakes International Language Academy Project), the School must move toward a 20% fund balance in its general fund. It is the policy of the School to follow that directive, as quoted below:

Section 6.12 (g): “(the School will) Maintain on its books, a ...account to be funded on a best efforts basis from accumulated cash surpluses of the School, if any, in an amount equal to 20% of the budgeted annual operating expenses of the School net of Lease Payments...”

III. Background and Further Requirements

Lakes International Language Academy school board believes it to be prudent to maintain adequate reserves in its general fund. These reserves provide the cash flow to permit the payment of the District's financial obligations without borrowing funds. Adequate reserves are necessary for the following reasons:

- a. Unanticipated reduction or delay (holdback) in state and/or federal aids;
- b. Mandated, but inadequately funded or unfunded state and/or federal programs;
- c. Increased utility costs due to abnormal price increases or inclement weather conditions;
- d. Increases in wages or salaries;
- e. Costs incurred due to a fire or other natural disasters;
- f. Revenue losses resulting from unanticipated enrollment declines;
- g. Unanticipated student needs;
- h. Other unanticipated emergencies.

The School Board further believes that it carries the financial responsibility to prepare a balanced budget (revenues equal or exceed expenditures) on a yearly basis. However, because of the reasons outlined above, a balanced budget may not always be possible. If an imbalanced budget is approved, the Finance Committee will be directed to develop a financial plan, which includes the measures necessary to provide a balanced budget in future years.

IV. Spending Reserves

- a. The board recognizes that reserves may need to be tapped for reasons listed in section III.
- b. As part of a board-approved balanced budget, cash on hand may be spent without further board approval. Spending down the general fund balance (a net loss annual budget) requires board approval. Note that in the case of a large state aid holdback, the fiscal year general fund balance may not decrease even while spending the cash reserve.
- c. Short-term borrowing can be an important tool for enhancing cash flow if used appropriately. A line of credit may be used with board approval, which includes a discussion of the lender, maximum amount and a repayment plan.